

Budget and Finance Committee
Pre-Budget report to the National Assembly – June 2001

Chairperson of Committee: Mr Louis Chimango
jurist@malawi.net

Note: This report was prepared by the committee in close consultation with civil society, notably the Malawi Economic Justice Network (MEJN).

Budget & Finance Committee

Pre-Budget Report to the National Assembly - June 2001

	Page
1. Introduction	4
1.1 Budget and Finance Committee Members and Terms of Reference	4
1.2 Purpose and Scope of the Report	5
1.3 Work Undertaken by the Committee to Date	6
1.4 Acknowledgements	8
2. The Budget	9
2.1 The Budget as a Tool for Poverty Reduction	9
2.2 The Role of Parliament and the Public in the Budget Process	10
2.3 Broadening Ownership of Budget Oversight within Parliament	12
2.4 Designating Priority Poverty Expenditures	13
2.5 The Budget Format	14
2.6 Monitoring the Budget and Tracking Results	15
2.7 Protecting Priority Poverty Expenditures	16
3. Donor Debt Relief as a Highly Indebted Poor Country (HIPC)	17
3.1 The HIPC Process and the Amount of Debt Relief	17
3.2 Managing HIPC Funds	18
4. The Poverty Reduction Strategy Paper (PRSP)	19
4.1 Important Features of the PRSP	19
4.2 The PRSP Process to Date	20
5. Poverty Analysis	22
5.1 The Extent of Poverty	22
5.2 Who and Where Are the Poor	23
5.3 The Educational Status of the Poor	24
5.4 The Health Status of the Poor	24
5.5 Economic Characteristics of the Poor	24
5.6 Agriculture and the Poor	24
5.7 Helping the Poor	25

6. Agriculture	25
6.1 Spending for Agriculture	26
6.2 Allocation of Resources within the Agriculture Budget	26
6.3 Extension Services	26
6.4 Access to Credit	27
6.5 Targeted Inputs Programme (TIP)	28
7. Education	28
7.1 Primary Education	28
7.2 Teacher Training	29
7.3 Conditions of Service for Teachers	30
7.4 Teaching and Learning Materials	30
8. Health	31
8.1 Primary Health Care	32
8.2 Training Front-Line Health Care Professionals	32
8.3 Conditions of Service for Front-Line Health Care Professionals	33
8.4 Drugs and Medical Supplies	33
9. Infrastructure	33
9.1 Rural Roads	33
9.2 Safe Drinking Water	35
10. Security	35
10.1 Police Service and Community Policing	35
11. Macroeconomic Review	36
11.1 Economic Outlook	37
11.2 Inflation	37
11.3 Monetary Policy	37
11.4 Interest Rates	38
11.5 Fiscal Policy	38
12. The Private Sector	39
12.1 The Surtax	39

13.	Conclusion	40
14.	Recommendations	41
15.	Annexes	
A	Consultants and Technical Advisers	44
B	Members from Other Committees Who Participated in Budget and Finance Committee Meetings	45
C	Government Spokespersons Consulted by the Committee	46
D	Civic Organisations Consulted by the Committee	48
E	Table 4, Indicative Use of HIPC Resources: 2000/01-2002/03, and Box 2, Policy Areas to be Monitored for the Floating Completion Point, Excerpts from World Bank's HIPC Decision Point Document	51
F	Bibliography	53

1. Introduction

1.1 Budget and Finance Committee Members and Terms of Reference

1.1.1 The Budget and Finance Committee is appointed by the House pursuant to Section 56 (7) of the Constitution to consider matters relating to the national budget and Government taxation policies.

1.1.2 The Committee consists of thirteen Members. The quorum for formal proceedings is seven. Members of the Committee are appointed by political parties represented in the House and confirmed by the National Assembly. Current Members, since March 2001, are as follows:

- ❑ Honourable Louis Joseph Chimango, MP (MCP), Chairman
- ❑ Honourable Ali Sikelo, MP (UDF), Vice Chairman

- ❑ Honourable Nelson Chuthi, MP (MCP)
- ❑ Honourable Limited Genti, MP (MCP)
- ❑ Honourable Vincent Mapesi Gondwe, MP (AFORD)
- ❑ Honourable Patrick Feckson Katsanga, MP (UDF)
- ❑ Honourable Henry Midiani, MP (UDF)
- ❑ Honourable Henry Mlaliki, MP (UDF)
- ❑ Honourable Thomas J.M. Mnesa, MP (UDF)
- ❑ Honourable Daniel Kerium Mphunga, MP (MCP)
- ❑ Honourable Yakub Osman, MP (UDF)
- ❑ Honourable Mwetsenit Yetala, MP (UDF)
- ❑ Honourable Godfrey Zulu, MP (AFORD)

- ❑ Mr. Lawson Chitseko, Senior Clerk Assistant, Secretary

1.1.3 Terms of Reference of the Committee are as follows:

- ❑ Familiarise the Committee with the budget and reports on economic issues, statistical information, international agreements, financial reports, and reports on economic and policy statements.
- ❑ Sharpen public awareness of the budget and Government financial and economic policies, and encourage informed debate on the budget.
- ❑ Advise the National Assembly on Government's domestic and international borrowing policies.
- ❑ Study Government taxation policies and advise accordingly.
- ❑ Report findings to the National Assembly.
- ❑ Seek advice from the Minister of Finance and Economic Planning, and other officials, on financial and other matters.

- Review bills with financial and budget implications and any other matter that the House may refer to the Committee.

1.1.4 The Committee resolved to interact with Government and others in order to be a constructive party to the process of formulating the budget and monitoring the budget throughout its cycle, and to report on these matters to the National Assembly.

1.2 Purpose and Scope of the Report

1.2.1 This report is intended to assist Parliament in reviewing the budget to be proposed for 2001/2002. After the budget is tabled in Parliament we will review it, solicit public input, and deliver a second report to Parliament to assist the House in the debate. We seek Parliament's support for our recommendations.

1.2.2 In response to stakeholders, and after consulting with Government, the Committee recommends increased budgets for twelve programmes in agriculture, education, health, infrastructure, and security that are, in our judgement, most critical for poverty reduction (See Sections 6 to 10 of this report). The Committee recommends that budgets for these programmes be designated as Priority Poverty Expenditures, and given special treatment during budget implementation.

Priority Poverty Expenditures (PPEs) are the budgets for programmes <u>specifically designated</u> as likely to be <u>most effective</u> in reducing poverty, and coded as such in the budget documents.
--

1.2.3 This report includes recommendations on processes for formulating and monitoring the budget that will enhance Parliament's role in appropriating and overseeing the budget, and make the budget process more responsive to stakeholders. The report also briefly highlights the current macroeconomic outlook and addresses private sector concerns about the surtax.

1.2.4 The Committee's objectives are as follows:

- Ensure the best use of Malawi's scarce financial resources for reducing poverty and stimulating economic development.
- Increase public confidence in processes by which difficult decisions about the budget are made.
- Strengthen political will to target and control public spending.

1.3 Work Undertaken by the Committee to Date

1.3.1 Before the budget for 2000/2001 was tabled, the Committee engaged an economist to prepare a report on the macroeconomic situation and factors most important for reducing poverty and developing productive sectors of the economy. The consultant also advised on how the proposed budget addressed these factors. A second report was distributed to all MPs, and Committee Members used the analyses in their contributions to the budget debate. The Committee could not monitor the budget systematically through the year because it was unable to meet regularly.

1.3.2 The Committee obtained donor funds starting in March 2001. Since then, the Committee has met four times for a total of eight days, each time with technical assistance from consultants. Between meetings the Committee Chair and the consultants summarised findings, drafted questions for Ministries, and studied relevant documents. (See Annex A: Committee Consultants and Technical Advisers; Annex F: Bibliography)

1.3.3 Senior officials from the Ministry of Finance and Economic Planning briefed the Committee and answered questions at meetings in March, April, and early May. Senior officials from the National Economic Council did the same at meetings in March and April. In mid-May Committee Members advised the Minister of Finance and Economic Planning of key recommendations likely to be in this report. The Minister understands that Committee recommendations are not official until the report is adopted by the House.

1.3.4 Senior officials from the Ministries of Agriculture and Irrigation, Education, Science and Technology, and Health and Population briefed the Committee and answered questions at meetings in March and April. Chairs and other Members of Parliamentary Committees on Agriculture and Irrigation, Education, Health and Population, and Public Accounts participated in these meetings.

1.3.5 The Committee solicited public input on the budget and poverty reduction strategy through newspaper advertisements and invited civic organisations to a meeting in early May. Spokespersons for 48 organisations with expertise on agriculture, education, health, private sector interests, consumer interests, the Poverty Reduction Strategy Paper (PRSP), and donor debt relief gave the Committee advice and recommendations. Chairs and other Members of the Committees on Agriculture and Irrigation, Education, Health and Population, Commerce, Industry, and Tourism, and Legal Affairs participated in this meeting. Views of MPs from the Budget and Finance and other Committees based on experiences in their constituencies complemented, and in most instances confirmed, testimony from civic organisations. (See Annex B: Participants from Other Parliamentary Committees; Annex C: Government Officials Consulted by the Committee; Annex D: Civic Organisations Consulted by the Committee.)

1.3.6 The Chair, other Committee Members, and consultants participated in pre-budget consultations with stakeholders arranged by the Ministry of Finance and Economic Planning in Lilongwe, Salima, and Blantyre, and in numerous consultations with stakeholders on the PRSP.

1.3.7 Key documents analysed by the Committee and our consultants include:

- Budget documents for 2000/2001, quarterly reports on revenues and expenditures for 2000/2001 (to the extent available), a draft review of public expenditures prepared by Government and the World Bank (*PER*), and Government's draft plan of action for phase two of the Medium Term Expenditure Framework (*MTEF Review*).
- A profile of poverty in Malawi issued by the National Economic Council, the interim PRSP and briefing papers, draft reports of PRSP working groups on macroeconomic stability, public expenditure management, agriculture, education, health, and HIV/AIDS, the report on district consultations on the PRSP, and the final draft of Malawi PRSP: Findings to Date, as submitted to Cabinet (*Findings to Date*).
- The World Bank document on interim acceptance of Malawi into the HIPC debt relief programme (*Decision Point Document*), an IMF/World Bank document on monitoring programmes for poverty reduction in HIPC countries, and numerous documents from the Internet on poverty reduction processes in other countries.
- Written testimony submitted by civic organisations

- The Surtax Bill (Bill No. 2, 2001)
- Reserve Bank of Malawi's Financial and Economic Review
- Newspaper reports of comments on the budget and the economy from August 2000 through May 2001

1.3.8 The Committee regrets that it was not able to analyse the utility of the budget as a tool for gender equity and empowerment, or as a tool for combating HIV/AIDS. Similarly it did not have time to examine the impact of the flood on the budget. We are asking Government to provide information on budget inputs and outputs dis-aggregated by gender, and to provide consolidated information on programmes in all Ministries dealing with HIV/AIDS. This will facilitate analysis of the budget for 2002/2003 from both perspectives.

1.4 Acknowledgements

1.4.1 The Committee thanks the National Economic Council and the Ministries of Finance and Economic Planning, Agriculture and Irrigation, Health and Population, and Education, Science and Technology for responding to the Committee's many questions and generously making their senior officials available to consult with us. Since his appointment in 2000, the Minister of Finance and Economic Planning has repeatedly said that Committee input on the budget is very important to Government. The Committee is grateful for the Minister's encouragement and responsiveness to the Committee's concerns. The Minister was always available to the Committee at short notice.

1.4.2 The Committee thanks constituents and civic organisations that shared their experience and offered recommendations. We believe this report will serve their interests.

1.4.3 The Committee thanks Members from the Agriculture and Irrigation, Education, Health and Population, Commerce, Industry and Tourism, Public Accounts, and Legal Affairs Committees of Parliament who participated in our deliberations. Their advice and opinions are reflected in this report, and the report is richer because of them.

1.4.4 The Committee thanks the U.K. Department for International Development (DFID), the U.S. Agency for International Development (USAID), and the Royal Danish Embassy who funded Committee meetings and consultants directly and/or through the National Democratic Institute for International Affairs (NDI).

1.4.5 The Committee thanks the consultants and NDI for their technical assistance and facilitation.

1.4.6 Last, but certainly not least, the Committee thanks Parliament in anticipation for their input after the findings are tabled. We are honoured to be an organ of Parliament, and look forward to continuing to be of service to the House.

2. The Budget

2.0.1 The national budget is the primary tool for implementing national policy. The budget process enables Government to plan, implement, and review the effectiveness of its policies and programmes.

2.1 The Budget as a Tool for Poverty Reduction

2.1.1 After its preliminary studies, the Committee consciously took up poverty as the principal threat to development, and concentrated on what must be done now, programmatically and procedurally, to maximise the impact of public spending to combat poverty.

2.1.2 Government policy is broadly presented in Vision 2020 and sectoral documents such as the Policy Investment Framework for Education and the National Health Plan. Poverty reduction is Government's top priority. However, since financial resources are insufficient to implement Government policies in their entirety, priorities must be set. To instil confidence in Government's poverty reduction strategy, the process for allocating funds must be transparent. Results achieved by public spending must also be verifiable on the ground.

2.1.3 According to all analyses of public expenditures in Malawi, failure to prioritise and concentrate funding on programmes with proven maximum impact has inhibited progress in reducing poverty and stimulating economic development.

2.1.4 Several years ago Government introduced the Medium Term Expenditure Framework (MTEF) for budgeting based on priorities and realistic costs. The MTEF has not yet yielded the intended benefits, in part because of limited capacity for financial management, and in part because incentives and penalties for enforcing fiscal discipline are inadequate. Political will is needed to enforce fiscal discipline. This is Parliament's responsibility as well as Government's. (*PER, MTEF Review*)

2.1.5 The prospect of increased funds from donor debt relief for poverty reduction programmes has stimulated increased attention to prioritising and costing. Implementing a poverty reduction strategy based on consultations with stakeholders and realistic costing of priorities is a condition for debt relief.

2.1.6 The Poverty Reduction Strategy Paper (PRSP) is supposed to reflect Government's broadest policies while focusing on a discrete number of programmes that Government and stakeholders believe are likely to be most effective for reducing poverty. Once the PRSP is finalised it is expected to be a comprehensive statement of Government policy, the framework for all Government activities, and the basis for the MTEF and annual budgets.

2.1.7 The PRSP will be completed later this year. In the meantime, Government will set priorities for funding in the 2001/2002 budget based on findings to date from consultations with stakeholders.

2.2 The Role of Parliament and the Public in the Budget Process

2.2.1 Findings to date include measures that Government and stakeholders believe can be implemented this year to increase public confidence in the poverty reduction strategy and improve fiscal discipline; the following measures are necessary:

- Allow a longer period for parliamentary scrutiny of the budget before it is passed.
- Submit quarterly expenditure reports to the Budget and Finance Committee and the Special Cabinet Committee on Budgetary Measures.
- Provide training in public finance for MPs and controlling officers of Ministries.
- Make the Integrated Financial Management and Information System (IFMIS) fully operational by July 2001.
- Pass new Finance and Audit Acts with strong sanctions for controlling officers who over-spend and clear roles for the Budget and Finance and Public Accounts Committees.

2.2.2 The budget is the most important legislation of the year. PRSP findings make it crystal clear that more time for scrutiny of the budget by Parliament is essential for public confidence in the tough choices that have to be made to

combat poverty. If MPs believe they own the budget, they will contribute to the political will necessary to enforce fiscal discipline, even when it hurts.

2.2.3 Parliament needs time to study the budget before it can make a meaningful contribution. This year Ministers will respond to questions on their budgets, and this will take time. The Committee will solicit public input on the proposed budget and submit additional findings and recommendations to assist Members in the debate in the House. If Parliament does not find enough time and commit resources needed to consider this input, expectations raised by PRSP consultations will be dashed, and public confidence will be eroded.

2.2.4 Curtailing the budget debate by waiver of notice, or otherwise, would send the wrong signal about commitment to meaningful roles for Parliament and the public in this critical phase of the budget process. The statutory minimum of 21 days will hardly be enough time for the consultations, analysis, and debate that the proposed budget warrants.

Kuthamanga Sikufika

Running Fast Does Not Mean Getting There

2.2.4 The Minister of Finance and Economic Planning drew the Committee's attention to Sections 175 to 178 of the Constitution, and in particular to Section 178, which does not impose time limits, granted that the budget must be introduced in Parliament before the end of the financial year (30 June). The cost of keeping MPs in Lilongwe is a factor, but pales in comparison to the benefits of allowing ample time for consultation and debate. Referring the budget to the Committee after it is presented, and allowing time for all significant input, will go a long way toward building informed support in Parliament and civil society for Government's efforts to impose fiscal control, combat poverty, and stimulate economic development.

Recommendation 1: Refer the budget to the Budget and Finance Committee for public hearings, subject to Section 178 of the Constitution. Allow at least 21 days for debate to consider all significant inputs.

2.2.5 The Committee agrees with the PRSP finding that MPs, and particularly Members of oversight Committees such as the Budget and Finance and Public Accounts Committees, need training in public finance. The Budget and Finance

Committee also needs ongoing technical support so it can conduct meaningful oversight of the budget throughout the year. Other Committees also need this kind of training and technical assistance so they can evaluate the value for money of programmes relevant to their portfolios.

2.2.6 As much as the Committee appreciates donor assistance, Parliament itself needs reliable access to a reasonable level of human and financial resources, supported by the budget, to carry out its constitutional mandates to appropriate and oversee the budget on a sustainable basis.

Recommendation 2: Include funds in the budget for Parliament to enable oversight Committees to do their work professionally, and for training for Members of oversight Committees whose portfolios are critical for poverty reduction.

2.2.7 The Committee appreciates the Ministry of Finance and Economic Planning's intention to provide quarterly reports on the budget to the Budget and Finance and Public Accounts Committees. These reports will be particularly helpful if they provide the information requested in this report. We endorse the Ministry's intention to introduce new finance and audit legislation. The Committee looks forward to consulting with Government on this legislation before it is drafted, and to conferring with the Ministry of Finance and Economic Planning and the National Economic Council throughout the year. Meetings with Cabinet Committees on the economy and budget would also be very useful, as the work of these Committees is complementary. However, the principle of separation of powers is appreciated.

Recommendation 3: Consult with the Budget and Finance and Public Accounts Committees before new finance and audit legislation is drafted. Ideally meetings of these Committees with Cabinet Committees would also help.

2.3 Broadening Ownership of Budget Oversight within Parliament

2.3.1 The Budget and Finance Committee collaborated with Members of six other Committees during deliberations leading up to this report. The Committee

initiated this both to take advantage of other Committees' expertise on sectoral issues and to increase understanding of budget issues throughout Parliament. This year the Budget and Finance Committee will ask other Committees to formally designate three Members to confer with it periodically through the year on budget and poverty reduction issues relevant to their portfolios.

2.3.2 Systematic collaboration will have financial and political benefits:

- Development of expertise throughout Parliament will accelerate, and the cost of accomplishing this will be minimised. Committee meetings are expensive. Portfolio Committees will be able to handle budget analysis cost-effectively by delegating to three Members the initial task of gathering and analysing information on budgets for Ministries they oversee. The Budget and Finance Committee will benefit from other Committees' expertise on sectoral policies and results of Ministries' programmes.
- The political base within Parliament to support sound budget policy and demand fiscal discipline will broaden. The Budget and Finance Committee has only 13 Members. If six other Committees have Members trained in public finance who participate in deliberations with the Budget and Finance Committee, Committees comprising almost half the House will be able to contribute insightfully on the budget and its implementation.

2.4 Designating Priority Poverty Expenditures

2.4.1 As noted above, the Budget and Finance Committee has come to consensus on programmes that the Committee believes are priorities for poverty reduction. While the Committee hopes our recommendations will be considered, our overriding concern is that Government adopts the principle and practice of both designating a limited number of Priority Poverty Expenditures (PPEs) and according them special treatment in the budget.

Recommendation 4: Designate in the budget a limited number of specific programmes that are likely to be most important for reducing poverty. Cost the inputs for these programmes realistically, and code all funds budgeted for these programmes from all sources as Priority Poverty Expenditures.

2.4.3 The following sections of this report describe the special treatment recommended for Priority Poverty Expenditures.

2.5 The Budget Format

2.5.1 The budget format has made it difficult for Parliament and stakeholders to analyse and monitor spending, and to determine expected and actual results. The budget for 2000/2001 for the Ministry of Agriculture and Irrigation, for example, was 1,328 pages long, and estimates for extension services were scattered throughout the documents. This year the format is expected to be much simpler according to instructions issued to Ministries by Treasury.

2.5.2 The following features would make the budget more transparent and easier to understand:

- Budget broken down into readily understandable programme components, and provision of the following information on each programme:
 - Total spending from all sources consolidated in one place
 - Costs for headquarters/administration clearly distinguished from costs for front-line service delivery
 - Costs for personal emoluments (salaries and benefits) clearly distinguished from costs for ORT (materials, transport, and other goods and services)
 - Estimates approved by Parliament for the previous year for each programme, and for these sub-components, and revised estimates of actual expenditures for the year (estimates should make it possible to evaluate increases and decreases in real terms, allowing for inflation and fluctuation in the value of the Kwacha)
 - Quantified, verifiable results expected for the coming year, and actual results for the previous year.

2.5.3 This year the Ministry may not be able to provide all of this information for every programme. It should, however, be able to provide this information for the limited number of programmes designated as Priority Poverty Expenditures.

Recommendation 5: Present the budget, at least for Priority Poverty Expenditures, in a format with the features outlined in Section 2.5.2

2.6 Monitoring the Budget and Tracking Results

2.6.1 The value of the budget for reducing poverty depends just as much on monitoring and tracking as on making good decisions about which programmes to target as priorities. Parliament and Government have to monitor the budget to be sure that funds are used only for purposes approved by Parliament, and that amounts spent on various programmes conform to the budget and achieve the intended results. Monitoring and tracking Priority Poverty Expenditures is particularly important.

2.6.2 This is a huge undertaking. Right now it is challenging but feasible for Government to be fairly effective in controlling amounts of funds spent by line Ministries. It is more difficult to control how the Ministries use funds and to track specific results.

2.6.3 Many factors contribute to deviations from budget, in terms of both inputs and outputs. Corruption and other fiscal crimes have been major problems. The cash budget limits spending to revenue actually received. If revenue is short, funding for some programmes is reduced or cut. This must be done to avoid deficits, but current controls do not prevent arbitrary allocations of funds within Ministries when cash is short. Some funds are spent for personnel who accomplish little or nothing because there are no funds for materials with which to do their work. The MTEF does not yet give enough information on results. Poor co-ordination between Ministry planners who deal with the MTEF and staff responsible for budgeting also complicates matters.

2.6.4 The Ministry of Finance and Economic Planning has taken significant steps to try to control spending. Unfortunately, controls and penalties are still inadequate to deter, detect, and remedy insubordinate, inefficient, and illegal behaviour. In theory, if a Ministry does not submit expenditure returns on time, Treasury withholds the next allocation of funds. In practice this rarely happens. Controlling officers who disobey Treasury instructions rarely suffer significant consequences.

2.6.5 The Ministry of Finance and Economic Planning is also trying to make it easier for others to monitor government revenues and expenditures. Among other things, the Ministry posts quarterly reports on the Internet. The Committee studied these reports during our investigation. They did not provide much of the information the Committee needed to answer its questions. There are delays in posting the reports, and in the latest report (for example), revenue figures were posted without expenditures.

2.6.6 The Minister was candid with the Committee about challenges involved in revamping financial management systems so that the budget can be properly monitored and tracked. We are confident that Government is seriously committed to the task. The Committee is pleased that Government expects to make the new Integrated Financial Management Information System (IFMIS) fully operational by July 2001. We look forward to a full briefing after the budget is passed.

2.6.7 Despite the challenges, it is essential for Government and Parliament to do a really credible job monitoring and tracking spending during 2001/2001, at least for the Priority Poverty Expenditures. The toughest part of the task will be quantifying and verifying results. However, key indicators (or proxies for results) can be used to give realistic bases for evaluating outcomes from priority programmes.

2.6.8 Complete and timely quarterly reports with the following features will be necessary:

- Expenditures from all sources for the previous reporting period and year to date, and projections for the next reporting period and the balance of the year
- Explanations of all spending variances from estimates in the approved budget, and measures that will be taken to guarantee spending as budgeted by the end of the year
- Current estimates of quantified, verifiable results achieved during the previous reporting date, and projections for the next reporting period and the balance of the year.
- Explanations of variances from results anticipated in the approved budget, and measures that will be taken to ensure the anticipated results by the end of the year.

<p>Recommendation 6: Provide quarterly reports with features outlined in Section 2.6.8, at least for Priority Poverty Expenditures.</p>

2.7 Protecting Priority Poverty Expenditures

2.7.1 Decisive measures must be taken to protect Priority Poverty Expenditures, even if revenues are below estimates and emergencies occur. It is

not feasible to guarantee that expenditures for all programmes will precisely match budgeted amounts, and this is one of the reasons for designating only a limited number of Priority Poverty Expenditures for special treatment. If revenue for these programmes from one source is less than anticipated, the shortfall should be made up by re-allocating funds to the programmes from other sources. If anything that can't be foreseen should prevent this, Government should obtain prior approval from Parliament before changing levels of funding.

Recommendation 7: Guarantee that total funds actually spent on programmes designated as Priority Poverty Expenditures will not be less than the amount budgeted for them from all sources, and seek prior approval from Parliament for any change in funding for Priority Poverty Expenditures.

2.7.2 It is difficult to predict when emergencies will arise, but it is safe to say they will arise. The Committee believes the budget should include a contingency fund for dealing with emergencies. Steps must also be taken in advance to minimise consequences of natural occurrences, such as floods.

3. Donor Debt Relief as a Heavily Indebted Poor Country (HIPC)

3.0.1 The World Bank and IMF proposed the HIPC programme in 1997 because poor countries like Malawi cannot service large external debts without neglecting other priorities. Since then the programme has been enhanced to make it easier for poor countries to qualify. Other donors have also agreed to participate.

3.0.2 Forgiveness and restructuring of debt payments makes it possible to reallocate substantial funds to programmes with the greatest impact on poverty. Funds freed by debt relief are used for these programmes, but they are not the only source of funds. Countries accepted into the HIPC programme must meet rigorous conditions to continue to qualify for debt relief.

3.1 The HIPC Process and the Amount of HIPC Debt Relief

3.1.1 Malawi was accepted into the HIPC programme on an interim basis in December 2000, when donors accepted an interim PRSP and Malawi met other conditions for reaching the “decision point”. Conditions for final acceptance

into the HIPC programme, the “completion point”, are outlined in the Decision Point Document (See Annex E). Donors may reinstate the debt payments forgiven during the interim period if Malawi fails to reach the completion point for final acceptance into the programme.

3.1.2 Conditions for reaching the completion point include a first year progress report on implementation of the final PRSP, progress in macroeconomic performance, and implementation of agreed measures to reduce poverty and accelerate growth. In other words, Government will have to demonstrate commitment to macroeconomic reform and poverty reduction before debt relief is considered irrevocable. The next big step will be completing the final PRSP by September and having it accepted by donors by the end of the calendar year.

3.1.3 The HIPC programme will relieve Malawi from about 44% of its debt payments to the World Bank Group of donors (multilateral donors). As of late 1999, 74% of Malawi’s debt was owed to the World Bank Group. A number of bilateral donors are willing to grant comparable debt relief. Japan, France, the United Kingdom, and Germany have already agreed to forgive and restructure substantial amounts of the debt owed to them.

3.1.4 The World Bank Group will forego debt payments amounting to US\$14.7 million during the 2000/2001 financial year. Some (or all) of these funds have already been made available for alternative uses. The figure will more than double to US\$32.5 million in 2001/2002 and US\$44.2 million in 2002/2003. Adding bilateral donors, total debt relief will average about US\$50 million per year during the period 2000 to 2019. To put these figures in context, from 1997 to 1999 Malawi spent an average of US\$94 million on payments on foreign debt.

3.1.4 HIPC debt relief of US\$14.7 million for 2000/2001 is about 4% of the estimated expenditures for the year exclusive of debt service. Overall, HIPC debt relief is expected to enable Malawi to increase future spending on programmes that are priorities for poverty reduction by 10% to 14%.

3.2 Managing HIPC Funds

3.2.1 Debt relief must be used exclusively to fund programmes that are priorities for poverty reduction, and must be completely accounted for. To get to the decision point in December 2000, Government had to agree on likely uses of funds freed by debt relief for the first three years of the HIPC programme. (See Annex E for “indicative” uses in 2000/2001 through 2002/2003.)

3.2.2 For the years 2001 onwards, the precise uses and amounts need not be exactly as agreed last year. The Committee cites these amounts in various places in this report to provide information on what the multilateral donore and Government had in mind for uses of HIPC funds. The actual uses will be for priorities identified in the PRSP Findings to Date and the final PRSP. In most cases more will be required for the Priority Poverty Expenditures than will be available from HIPC resources. The Committee has asked for the amount of HIPC funds disbursed during the current year, and uses of these funds, but has not yet received this information.

3.2.3 To facilitate monitoring of HIPC funds, quarterly reports with the following information will be needed:

- Amounts and uses of all funds freed by HIPC debt relief for the previous reporting period and year to date, and projections for the next reporting period and the balance of the year
- Explanations of all variances from estimates for uses of HIPC funds in the approved budget, and measures to be taken to guarantee spending as budgeted by the end of the year

Recommendation 8: Include in the budget a complete accounting of all uses of HIPC funds for 2000/2001, and commit to use HIPC funds exclusively for designated Priority Poverty Expenditures. Commit to provide quarterly reports on uses of HIPC funds as outlined in Section 3.2.3.

4. The Poverty Reduction Strategy Paper (PRSP)

4.1 Important Features of the PRSP Process

4.1.1 Government is expected to choose the programmes that are likely to have the greatest impact on poverty based on broad consultations with stakeholders. Stakeholders expect to be partners with Government in selecting the programmes. The programmes designated as Priority Poverty Expenditures will be noted in the final PRSP. Progress on the poverty reduction strategy will be reviewed annually, and the PRSP itself will be updated every three years, based on comprehensive review and consultations.

4.1.2 Government is leading the process for preparing the PRSP through a National Steering Committee of Principal Secretaries and a Ministerial Committee chaired by the Minister of Finance and Economic Planning. A Technical Committee currently made up of civil servants is responsible for compiling input from all sources in a single PRSP document. Government convened about twenty thematic working groups to consult among themselves and with others, prioritise and cost programmes in various categories, and report findings to Government. The working groups include government officials and other stakeholders. Consultations have also been held in all districts.

4.2 The PRSP Process to Date

4.2.1 Consultations on the PRSP have stimulated healthy dialogue on the poverty reduction strategy among Government, civil society, and some MPs, and raised great expectations among stakeholders that their input will be taken seriously.

4.2.2 Stakeholders have raised serious concerns about uncontrolled public spending which prejudices reducing poverty. Other concerns are as follows:

- Need to vigorously investigate and prosecute corruption, and take effective steps to prevent it
- Need to insulate development programmes from partisan political agendas
- Need to decentralise authority so that stakeholders at the district level can determine local priorities for poverty reduction.

4.2.3 The Committee is also interested in the budgets proposed for accountability agencies including the Office of the Ombudsman, the Anti-Corruption Bureau, and the Auditor General, and will investigate the adequacy of these budgets during the coming year.

4.2.4 The Committee believes that if Priority Poverty Expenditures cited in the Findings to Date, as it went to Cabinet, are designated as such in the budget, the budget will reflect priorities expressed by most stakeholders.

4.2.5 The Committee believes that Government will be able to count on Parliament and civil society to support the poverty reduction strategy if enough time is allowed to debate the budget, and if Government guarantees protection for Priority Poverty Expenditures and provides the baseline and monitoring information requested in this report.

4.2.6 There have been some difficulties with the process. Initially, Government planned to complete the final PRSP in April 2001, and include funds for all priority programmes in the budget for 2001/2002. This proved unworkable, principally because civic organisations were dissatisfied with the level of consultation with them. Government responded by deciding to deal with the budget for 2001/2002 based on Findings to Date as of the end of May.

4.2.7 While considerable effort was made to reach stakeholders at the national, regional, and district level, so far Government has been the dominant actor. The majority of working group members are civil servants, and civil servants were heavily represented in district consultations. Neither senior government officials nor civil servants made a systematic effort to ensure participation by Parliamentarians. Few MPs participated in working groups, and many never received notices of the consultations in their districts. Some groups had little or no representation from grassroots organisations experienced in front-line service delivery. Many members of working groups attended only one or two meetings because meetings were held on very short notice or because of lack of co-ordination. Participation by women in the district consultations was thin.

4.2.8 Working groups did not have enough time to draft solid reports on their findings. Many did not set clear priorities. Most did not cost priorities well. The fact that working groups did not have indicative ceilings for total costs for programmes within their sectors made prioritisation and costing difficult. Failure to complete rigorous prioritisation and costing left it up to Government to choose priorities for its first draft of Findings to Date.

4.2.9 Much to the credit of Government, stakeholders asked for and were given a strong voice in refining the draft. As a result, Government agreed to designate a limited number of specific programmes as Priority Poverty Expenditures. The Chairman of the Budget and Finance Committee and the Committee's consultant participated in the negotiations, and the Committee's consultant was included on the Technical Committee that refined the draft for submission to Principal Secretaries and Cabinet. The consultations on the PRSP are the first of their kind, and the most comprehensive effort to date. The shortcomings mentioned above should therefore be seen in a more positive light. Government needs to be encouraged to do even better, and has demonstrated a willingness and a capacity to reach out.

Recommendation 9: Increase membership of PRSP working groups and participation in district consultations to ensure participation by poor Malawians, women, people with front-line service delivery experience, and MPs. Increase administrative and technical support to ensure adequate notice of meetings and assistance as needed. Include representatives from the Budget and Finance Committee and civil society on the Technical Committee for the PRSP. Take the trouble to have MPs actively participate.

4.2.10 The programmes selected as Priority Poverty Expenditures in the Findings to Date are substantially the same as recommended by the Committee in Sections 6 to 10 below. This is a direct result of the Committee's close attention to stakeholders during the PRSP process.

4.2.11 The Committee has not been able to recommend specific amounts for the budgets for these programmes. Like the working groups, the Committee has not yet been able to get enough information on baseline budgets, current unit costs, and results that can be expected from different levels of spending. At least some of this information should be in the budget documents.

4.2.12 Government is trying to obtain good data on donor funds that are not included in the national budget. Meanwhile the Committee and other stakeholders will have to evaluate Government spending through the budget as if it were the only source of funding for Priority Poverty Expenditures.

5. Poverty Analysis

5.0.1 Government has undertaken an extensive exercise to shed more light on the nature and causes of poverty in Malawi. A nation-wide household survey on poverty was completed in 1998, and follow-up investigations are underway. Just a few of the principal findings from the survey are highlighted below. Unless otherwise noted, findings reflect the situation in Malawi in 1998.

5.1 The Extent of Poverty

5.1.1 According to the definition of poverty used in the survey, 65.3% of Malawi's people are poor, i.e., they do not have enough in cash or goods to meet their basic needs. The "poverty line" is the minimum level of consumption that distinguishes the poor from the non-poor. It is expressed in

Malawi Kwacha per person per day, and includes cash and the value of non-cash goods consumed for food and other basic necessities.

5.1.2 As of September 2000, the poverty line in rural areas ranged from MK14.42 in the South, to MK17.22 in the Central Region, and MK20.74 in the North. The poverty line in urban areas was MK47.18. In other words, households needed at least these amounts per person to meet their most basic needs. Due to increases in the cost of living since September, the poverty line has risen, i.e., people need more now than they needed in September for basic necessities.

5.1.3 The ultra-poor are people whose consumption is less than 60% of consumption at the poverty line, i.e., the ultra-poor have less than 60% of what they need to meet their most basic needs. The survey found that almost 30% of Malawi's people are ultra-poor!

5.1.4 In rural areas, people below the poverty line use about 80% of their meagre resources for food. In urban areas, people use about 67% of their resources for food.

5.1.5 Survey analysts recommend tackling the task of reducing poverty from the bottom up, i.e., targeting the ultra-poor, and promoting income generating opportunities rather than relying principally on handouts or income transfers.

5.2 Who and Where Are the Poor

5.2.1 Poverty is pervasive throughout Malawi in rural and urban areas, and in all regions. However, the percentage of people below the poverty line is somewhat higher in rural areas than in urban areas, and somewhat higher in the south than in other regions. More than 75% of the people in Zomba municipality, and in Thyolo, Phalombe, Ntcheu, and Ntchisi districts, live below the poverty line.

5.2.2 Not surprisingly, poor households are more likely to have more dependants per worker than non-poor households, and to have larger households overall.

5.2.3 The probability that a household will be poor is higher for female-headed households than for male-headed households. More women than men in their thirties are poor, many of them widowed or divorced.

5.3 The Educational Status of the Poor

5.3.1. For adults, more education is generally associated with better economic circumstances. However, this is more significant for poor households in urban areas than in rural areas where economic opportunities tend to depend more on factors such as landholding.

5.4 The Health Status of the Poor

5.4.1 Among the poor, location seems to be more of a factor in health status than household income. Poor children are more likely to die because of lack of health care in rural areas than in urban areas. The survey did not include data on the prevalence of HIV/AIDS among the poor. However, it is obvious that the impact of HIV/AIDS on poor households is particularly devastating.

5.5 Economic Characteristics of the Poor

5.5.1 Most of the poor tend to be self-employed in the informal sector of the economy, predominantly in agriculture. In urban areas they are involved in many types of street vending. Off-farm activity for the rural poor is mostly handicraft production.

5.6 Agriculture and the Poor

5.6.1 Most poor people depend on subsistence farming, the dominant rural economic activity in Malawi.

5.6.2 The percentage of people who grow local maize, rather than hybrid maize, is higher among the poor than the non-poor. This highlights the fact that poor farmers are unable to take advantage of superior agricultural technology.

5.6.3 Poor and non-poor households are equally engaged in tobacco production. However, the poor do not derive the same economic benefits from cash crop production as the non-poor, due at least in part to insufficient access to information, credit, and markets.

5.6.4 Livestock production accounts for a very small fraction of farm incomes in Malawi overall, but the poor are least likely to own any livestock, especially cattle.

5.7 Helping the Poor

5.7.1 To achieve the greatest impact on poverty, top priority must be given to interventions that assist the ultra-poor first, i.e., the poorest 30% of the population. Programmes are needed to help the poor help themselves, but safety nets like free farm inputs and subsidised employment are also needed for the poorest Malawians. Since female-headed households are most likely to be poor, special attention must be devoted to interventions targeting women.

5.7.2 The poverty alleviation strategy must be fundamentally rooted in rural areas where most of the poor live and work in subsistence agriculture. The majority of agricultural workers are women, so women must be specially targeted for assistance.

5.7.3 The Decision Point Document suggests US\$1.9 million as an indicative use of HIPC resources for gender, youth and community services in 2001/2002. This amount is almost insignificant compared to what is needed to make a real impact on poverty among women. Targeting funds to assist women through mainstream programmes of line Ministries is essential.

5.7.4 The Decision Point Document does not include figures for indicative use of HIPC resources to prevent and deal with the consequences of HIV/AIDS to the poor. Some interventions will have to target funds for preventing and coping with HIV/AIDS directly to poor Malawians, both through the National Aids Control Commission and through line Ministries. However, HIV/AIDS is taking a terrible toll on professionals like teachers and front-line health care workers whose services are critical for reducing poverty.

5.7.5 Conserving and restoring natural resources, particularly soil and water, is important for all Malawians, and particularly important for the rural poor who are entirely dependent on these resources for their livelihood.

6. Agriculture

6.0.1 Agriculture is the backbone of the Malawian economy. It accounts for 37% of the Gross Domestic Product (GDP), 90% of foreign exchange earnings, and 85% of national employment (*PER*). Given the country's narrow manufacturing base, agriculture will remain the economy's mainstay for many years to come. Increasing the productivity of the agricultural sector will provide the best short-term to mid-term opportunities for accelerating economic growth, as well as poverty reduction. Income and productivity gains in this sector are likely to have strong positive impacts on the welfare of the poor.

6.1 Spending for Agriculture

6.1.1 Public resources have been shifted away from agriculture during the past few years, and this is fundamentally at odds with poverty reduction. Between 1994 and 1999, the Ministry of Agriculture and Irrigation's share of recurrent expenditures was only 3% to 5%, a reduction of about 50% from 6% to 7% of recurrent expenditures between 1990 and 1994 (*PER*). The development budget also declined, mostly because the donor-funded Agricultural Services Project was phased out in 1999.

6.1.2 The real decline in agricultural expenditure seen in recent years must be reversed so non-traditional exports can be promoted without neglecting traditional crops and services. More research, and better application of research findings, on agricultural markets, technology, and diversification are needed.

6.1.3 The tobacco industry generates the majority of the country's foreign exchange earnings. Yet, farmers face substantial impediments in production and marketing. The overall cost burden on tobacco farmers should be reduced by limiting some of the levies and taxes in the marketing system.

6.2 Allocation of Resources within the Agriculture Budget

6.2.1 The percentage of the agriculture budget allocated for front-line services should be increased, and the percentage spent on administration should be decreased. Administration and support accounted for almost 80% of the recurrent budget in 1998/1999 (*MTEF Review*). In sharp contrast, in recent years front-line services have typically received only 10% to 20%.

6.2.2 Funds approved for programmes have been diverted to other uses. For example, in 1998/1999, 23% of the agriculture budget was allocated for extension services, but only 4% was used for this purpose. In the same year, 38% was budgeted for administration and 78% was spent on administration (*MTEF Review*). Funds were not adequately budgeted for administration of the Starter Pack and Targeted Input Programme (TIP), and that has contributed to overruns for administration.

6.3 Extension Services

6.3.1 Given the limited amounts of Government funds spent on extension, not much is being achieved on the ground, particularly for poor farmers. The extension system has concentrated on farmers with ample land and access to credit, while neglecting smallholders with less than 1.5 ha (*PER*). These are precisely the poor farmers who need the most help adopting new seed varieties

and other technologies. More resources are needed to increase the number of front-line staff, pay them better, equip them with adequate tools and materials, and transport them to remote villages. Specific attention to women farmers and to curbing the spread of HIV/AIDS among extension workers is needed.

6.3.2 Government has expressed interest in shifting substantial responsibility for extension services away from Government to farmers clubs and associations. Farmers associations strongly echoed this interest in their testimony to the Committee, and this is a good mid-term to long-term strategy. However, it will take time to implement this strategy, and it is not a foregone conclusion that non-governmental extension services will reach the poorest farmers. Until such a system is in place, and has been proven effective, Government should increase traditional extension services to poor farmers, particularly to the poorest farmers struggling to survive on what they produce.

6.3.3 The Decision Point Document suggests “indicative” use of US\$2.7 million from HIPC resources for extension services in 2001/2002.

Recommendation 10: Substantially increase the budget for Government extension services, and designate the same as a Priority Poverty Expenditure.

6.4 Access to Credit

6.4.1 Poor farmers prefer credit to handouts. Lack of credit is a major constraint to production, especially for smallholders trying to produce surpluses for sale. Government and micro-lenders are legitimately concerned about non-payment of debts. Nonetheless, credit must be made available to more and poorer farmers. Even if Government funds are not actually used for loans, increased public support is required for institutions that provide credit and work with farmers to help them qualify for loans. Results from this use of funds should be stated in terms of numbers of poor farmers assisted, how poor the assisted farmers are, and what poor farmers achieve by virtue of these loans. It should be noted that women have better repayment records than men.

Recommendation 11: Substantially increase the budget for support for programmes that provide credit and related services to poor farmers, and designate the same as a Priority Poverty Expenditures.

6.5 Targeted Inputs Programme (TIP)

6.5.1 Subsidised inputs remain essential for many of the poorest farmers. However all costs associated with providing subsidised inputs effectively, including distribution and related extension services, must be budgeted to avoid understating costs, and to be sure inputs achieve the expected results.

Recommendation 12: Substantially increase the budget for the Targeted Inputs Programme (TIP), include funds adequate to ensure proper distribution and associated delivery of extension services, and designate the same as a Priority Poverty Expenditure.

7. Education

7.0.1 Only about 30% of students who start primary school remain students through Standard 8 (*PER*). The poor quality of inputs is at the root of the deepening crisis in education characterised by high attrition in primary school and the disastrous results of the MSCE examinations.

"The most disturbing question to be asked is whether we can seriously think that a totally unqualified JSE teacher, standing under a tree in front of more than 100 children with no textbooks, is effectively imparting knowledge to our future leaders ... People are asking why go to school to learn little or nothing!"

Civil Society Coalition for Basic Education

7.1 Primary Education

7.1.1 Improvements in the quality of education are urgently needed both at primary and secondary levels. However, because it is essential to set priorities and concentrate resources, the Committee and other stakeholders have focused on primary education as most important for enabling the poor to improve their economic circumstances. With better primary education and increased literacy, poor households will be better able to control the numbers of children in their

families, take advantage of agricultural extension services to increase productivity, plan production so they can obtain access to credit, and cater for their own health needs by improving household nutrition and hygiene.

7.1.2 While primary education is the top priority, the Committee hopes to see increased funding in the budget for secondary education as well, specifically for teacher training, improvements to teachers' conditions of service, teaching and learning materials, and curricula that focus on life skills and vocational training. Information is needed on how Government expects to cope with demand for secondary school education from the large cohort of students that entered school when free primary education was instituted.

7.1.3 Information is needed on allocations of funds and anticipated results from programmes designed to curb the spread of HIV/AIDS among teachers and students.

7.2 Teacher Training

7.2.1. At both the primary and secondary level there is a huge shortage of properly qualified teachers. At the primary level, half of the teachers are not qualified. Yet, the six teacher training colleges for this level have been closed since September 1999 due to inadequate funding. The qualified teacher to pupil ratio is 1:118. This obviously results in very little effective supervision of students, much less serious teaching.

7.2.2. Funds must be provided to enable colleges that train primary teachers to operate at full capacity, and additional training should be organised through other institutions such as the universities.

7.2.3 Calculations provided in testimony to the Committee by civil society indicate that at least US\$1.72 million (MK 137.6 million) will be needed, just for the training required to reduce the percentage of unqualified teachers in primary schools to 30% by 2002, the first target of the Government's Policy Investment Framework for Education. An additional \$587,500 (MK 47 million) per year will be needed to reduce the percentage of unqualified teachers in primary schools to 10% by 2012.

7.2.4 The Decision Point Document suggests indicative use of US\$3.8 million in funds freed by HIPC debt relief for training teachers in 2001/2002.

Recommendation 13: Substantially increase the budget for training primary school teachers, and designate the same as a Priority Poverty Expenditure.

7.3 Conditions of Service for Teachers

7.3.1. It makes no sense to train teachers only to have them choose other careers from the outset, or to lose them due to attrition. Very poor conditions of service for teachers at primary and secondary levels have made education the profession of last resort, and contributed to extremely high attrition among teachers. At the primary level alone, Malawi loses about 500 teachers a month. Salaries are amongst the lowest for professionals and salary payments are often delayed. Failure to provide housing and inadequate transportation make it difficult to recruit teachers, particularly for rural areas. Attention by senior officials within the Ministry of Education to change attitudes and curtail disrespectful, dismissive treatment of teachers is also essential.

7.3.2 According to testimony from civil society, to raise salaries for 50,000 primary school teachers to a minimum of MK5,930 per month, an estimated US\$3.8 million (MK 304 million) would be required *in addition to* funds to support salaries at the current levels. Funds are also needed for teachers housing.

Recommendation 14: Substantially increase the budget for personal emoluments (salaries and benefits) for teachers, and designate the same as a Priority Poverty Expenditure.

7.4 Teaching and Learning Materials

7.4.1 Throughout the education system, basic teaching and learning materials are non-existent or in short supply. This has a decidedly negative impact on student achievement.

7.4.2 According to Government documents quoted in testimony from civil society, the average number of pupils per textbook in 1997 was 24, and US\$5.41 million (MK432.8 million) would be required to achieve a target of 2

pupils to a textbook at the primary level. Despite this, expenditure on teaching and learning materials actually decreased between 1993 and 1999 (*PER*).

7.4.3 It should be feasible to make significant progress in this area in 2001/2002. The Decision Point Document suggests indicative use of US\$6.1 million in HIPC resources for teaching materials in 2001/2002. The U.K. Department for International Development (DFID) and the Canadian International Development Agency (CIDA) have also pledged large grants for educational inputs.

<p><u>Recommendation 15</u>: Substantially increase the budget for teaching and learning materials for primary schools, and designate the same as a Priority Poverty Expenditure.</p>

8. Health

8.0.1 Malawi continues to suffer from persistently high mortality and morbidity rates from preventable diseases such as malaria, respiratory infections, diarrhoea, and ailments associated with childbearing and childhood (*PER*). Combined with a worsening HIV/AIDS epidemic, the situation is bound to deteriorate further unless there is a concerted effort to increase access to quality health care, particularly primary health care in rural areas.

8.0.2 The poor are caught in a vicious circle created by the mutually reinforcing combination of poverty and poor health. Low literacy rates, for example, handicap the ability of the poor to cater for their own health needs. Most of the poor live in rural areas that are most disadvantaged in terms of local access to good public health care. Good health is not only a fundamental aspect of human well being, but also a requisite for economic growth because ill-health leads to absenteeism and low productivity.

8.0.3 During the past few years, Government has made a conscious effort to shift public spending towards social sectors, including health. Malawi now has a medical college, a new central hospital, and has made progress with childhood immunisation. However, increased allocations for health as a share of the total budget have been insufficient to keep up with the rising cost of inputs and a rapidly growing population. Per person spending on health in real terms (i.e., adjusted for inflation and devaluation of the Kwacha) by Government and donors combined has actually declined since the mid-1990s (*PER*).

8.0.4 Allocation of funds for programmes implemented by the Ministry of Health and Population, as well as the National Aids Control Commission, to curb the spread of HIV/AIDS among front-line health care professionals, and information on anticipated results, are also needed.

8.1 Primary Health Care

8.1.1 Government has wisely shifted budgetary allocations for health to favour primary and secondary health care facilities. The important role played by mission facilities (CHAM hospitals and clinics) has also helped to improve the number and quality of district facilities. However, the number of health centres and clinics still falls far short of the number required to provide reasonable access to primary health care, particularly for the poor in rural areas.

8.1.2 As in education, priorities must be set. The Committee agrees with other stakeholders that priority must be given to primary health care. Among other things, access to reproductive health services will help the poor control family sizes and contribute to their ability to improve their economic circumstances.

8.1.3 The Decision Point Document suggests an indicative use of US\$2.7 million in HIPC resources for primary health care in 2001/2002, in addition to funds from HIPC resources specifically for drugs and training of nurses.

8.2 Training Front-Line Health Care Professionals

8.2.1 There is a dire shortage of skilled, front-line primary health care professionals, particularly in rural areas. According to the National Health Plan, Government health facilities alone need at least 2,800 additional nurses, 383 medical assistants, and 250 doctors. The World Health Organization recommends at least one physician for every 12,000 people. Malawi has one physician for every 46,000 people! Even when compared to poor neighbouring countries, the ratio of physicians to population is low. Nonetheless, training institutions are operating under capacity mostly due to funding constraints, and some have even been closed (*PER*).

8.2.2 The Decision Point Document suggests indicative use of US\$1.1 million from resources freed by HIPC debt relief for nurses training in 2001/2002.

<p><u>Recommendation 16</u>: Substantially increase the budget for training for front-line health care professionals, and designate the same as a Priority Poverty Expenditure.</p>

8.3 Conditions of Service for Front-Line Health Care Professionals

8.3.1 Poor conditions of service discourage health care professionals from working in Government health facilities. Testimony to the Committee described the ordeal for nurses, particularly in rural areas. They receive very low salaries, work twelve-hour shifts, and typically travel for two or more hours, each way, to work. Unhygienic conditions in health facilities put their lives at risk in these days of HIV/AIDS, and they do not have basic materials and drugs to cater for patients. As a result, Government is rapidly losing nurses, doctors, and other health workers to private clinics and hospitals and to other countries. This trend will surely continue unless conditions of service are dramatically improved. As is the case with teachers, it makes no sense to train front-line health workers only to lose them.

Recommendation 17: Substantially increase the budget for personal emoluments (salaries and benefits) for front-line health care professionals including nurses, and designate the same as a Priority Poverty Expenditure.

8.4 Drugs and Medical Supplies

8.4.1 Per capita spending on pharmaceuticals has increased since the mid-1990s demonstrating government's commitment in this area. In spite of this, serious shortages of even the most basic drugs persist throughout the country, due in part to theft and inefficient distribution (*PER*). It has been estimated that 60% of the drugs intended for Government health facilities have been lost to private clinics and vendors. However, even if these problems were eliminated, increased spending would still be required to raise expenditures closer to the regional average per capita and to the level of US\$1.25 per capita recommended by the World Health Organization.

8.4.2 In 2000/2001 the budget for drugs was estimated at about US\$1.16 per capita, and devaluation of the kwacha made it impossible to achieve even this goal without an injection of HIPC resources. Officials from the Ministry of Health and Population told the Committee that HIPC resources restored public spending to the budgeted level. However, as noted above, the Committee has not yet been able to obtain documentation of the use of HIPC resources in 2000/2001.

8.4.3 The Decision Point Document suggests indicative use of US\$7.3 million in resources freed by HIPC debt relief for drugs in 2001/2002.

Recommendation 18: Substantially increase the budget for drugs and medical supplies, include adequate funds for proper distribution and increased security for drug stores, and designate the same as a Priority Poverty Expenditure.

9. Infrastructure

9.1 Rural Roads

9.1.1 Linking production, particularly agricultural production in remote areas, to domestic and international markets was a high priority among people who participated in the district consultations on the PRSP. The Ministry of Agriculture and Irrigation believes that development of output markets for poor farmers is the most effective approach to reducing poverty for the largest number. It is also a good strategy for replacing handouts with economic opportunities.

9.1.2 Rehabilitating and constructing rural roads and bridges will contribute significantly to making markets accessible to the rural poor. Improving roads, and thereby reducing transport costs, should also reduce the costs of farm inputs and other goods in rural areas. Heavy rains this year caused major damage to rural infrastructure. Roads must be therefore be upgraded on an urgent basis, preferably before the beginning of the main marketing season.

9.1.3 The Committee notes the desire among stakeholders for rapid decentralisation of decisions about which roads are to be upgraded. Information is needed on how much authority will devolve to the districts, and when.

9.1.4 The Decision Point Document suggests an indicative use of US\$2.7 million in HIPC resources for upgrading rural roads in 2001/2002.

Recommendation 19: Substantially increase the budget for rehabilitating and constructing rural roads and bridges, and designate the same as a Priority Poverty Expenditure.

9.2 Safe Drinking Water

9.2.1 District consultations on the PRSP also underlined the pressing need for safe drinking water, a fundamental necessity. An ambitious programme for constructing boreholes and other water supply systems must be undertaken, particularly in rural areas. This must be accompanied by community training in maintenance of local water supply facilities.

9.2.2 Increased public spending on safe drinking water supply systems must be accompanied by expanding programmes for environmental protection of water catchment areas, re-forestation, and restoration of soils and streams. Population must also be controlled to avoid increasing pressure on natural resources. Some years ago, boreholes drilled to a depth of 10 meters were expected to yield water for many years. Now a depth of 25 to 40 meters is typically needed. If environmental protection and population control are not pursued vigorously, the cost effectiveness of funds spent for water supply systems will continue to decrease.

9.2.3 The Decision Point Document suggests indicative use of US\$4.2 million in HIPC resources for borehole construction and maintenance in 2001/2002.

Recommendation 20: Substantially increase the budget for constructing safe drinking water systems, include funds for community training in maintenance, and designate the same as a Priority Poverty Expenditure.

10. Security

10.0.1 The security situation in rural and urban areas has deteriorated, causing Malawians to fear for themselves and their property. District consultations on the PRSP made it apparent that security is just as much of a problem in rural areas and among the poor, as in urban areas and among the better off. In fact, theft is more devastating for the poor than for the rich. Many poor rural households no longer keep livestock, even chickens, for fear of theft. The same disincentive applies to accumulating other physical assets, e.g., seeds, tools, etc. Growing perceptions of insecurity also affect foreign investment and tourism.

10.1 Police Service and Community Policing

10.1.1 Relationships between communities and police are strained by distrust and cynicism about the Police Service and the criminal justice system. People

don't just want culprits caught and punished. They also want their stolen goods returned, or other restitution made. People resort to mob justice because they lose confidence in the processes employed by the police and the courts.

10.1.2 Increased recruitment and better training for the Police Service is needed, and police must be equipped for effective service. The cost of adequate policing can be reduced, and relationships between police and citizens can be improved, by a greater emphasis on supplementing regular police services with community policing.

10.1.3 This should be accompanied by a concentrated effort to improve efficiency and consideration for complainants and informers. The Committee agrees with the recommendations of a Justice of the Supreme Court of Appeal made during PRSP consultations to improve the delivery of justice, and to integrate traditional courts with statutory courts. Funding must be increased for justice delivery overall.

Recommendation 21: Substantially increase the budgets for training and employment for the Police Service (to increase the number of trained officers), and for instituting community policing, particularly in rural areas. Include in the budgets adequate funds for equipment and other materials, and designate the same as Priority Poverty Expenditures.

11. Macroeconomic Review

11.0.1 Growth in the economy is absolutely necessary in order to reduce poverty, yet the macroeconomic situation in the country has generally deteriorated during the past twelve months. The cost of living as reflected in the inflation rate has gone up, interest rates have been consistently high, and the Malawi Kwacha has lost value against major trading currencies by a large margin. Weakening of the Kwacha has contributed to higher local prices through costly imports. The Kwacha depreciation is itself a direct reflection of the country's weak export base, which is overdependent on tobacco.

11.0.2 Government has taken major steps under the Ten Point Plan to improve management of public funds. However, the benefits of the fiscal reforms have only become manifest in the last few months meaning that the general population has yet to feel a positive impact on their lives. This has led to widespread calls for Government to further tighten expenditure controls.

11.1 Economic Outlook

11.1.1 The economy's poor performance has resulted in an economic growth rate inconsistent with the government's poverty reduction goal. Economic growth during 2001 is expected to be below 3%. This compares poorly with last year's 3.4% growth in Real GDP and with 6% growth which is required for significant poverty reduction. The poor growth expectation stems from below average performance in agriculture and a declining manufacturing sector. In particular, the recent heavy rains are expected to dampen agricultural production, especially of maize. This will have negative consequences for food prices and could lead to an increase in inflation.

11.1.2 Government may be able to counter this by reducing expenditures, and maintaining low borrowing levels. These measures could reduce inflationary pressures emanating from growth in the money supply. Similarly, the stability of the Kwacha and its recent appreciation against other currencies will reduce inflationary pressures from imports. The final outcome on inflation this year will therefore depend a great deal on the harvest and government's interventions in the food market. Meanwhile, interest rates are expected to decline steadily given the current downward trend in treasury bill yields. This should reduce the cost of credit to the private sector and possibly allow some resurgence in this sector. Only through much higher levels of private investment will economic growth rebound to levels necessary for meaningful poverty reduction.

11.2 Inflation

11.2.1 Malawians are concerned with the rising cost of living; the need for more stable prices for domestic goods and services was one of the key findings in PRSP district consultations. The annual inflation rate is the best indicator of changes in the cost of living because it measures changes in the general price level from year to year. In June 2000, annual inflation was 22.2%, and this was close to the 19% average over the past thirty years. By December 2000 inflation had risen as high as 35.4% partly due to the weakening Kwacha. Since then, inflation has gradually declined to 27.4% in April 2001. This is still too high, especially considering the 10% inflation target for December 2001. The Committee has in the past been skeptical of Government's inflation targets.

11.3 Monetary Policy

11.3.1 Monetary policy involves managing the country's money stock through various instruments including treasury bills, central bank bills, and interest rate adjustments. Since 1999, the Reserve Bank of Malawi has been following a

tight monetary policy by limiting the growth of money held in the Bank. A tight monetary policy helps to reduce inflation that results from allowing too much money to circulate in the economy. In spite of the Bank's policy, growth in total money supply (M2) increased rapidly between August and November 2000, peaking at 48% in November, compared to 12% in June 2000. This loosening of monetary policy was related to increased Government borrowing during the second half of calendar year 2000 (the first half of financial year 2000/2001).

11.3.2 Growth in M2 began to slow down in December 2000 falling to 35% in February 2001. The contraction in the money supply follows a reduction in net domestic credit. This reflects Government's aggressive repayment programme to the Reserve Bank and to the banking system in general. In fact, since the beginning of 2001, Government has stopped borrowing on the Bank's overdraft facility.

11.4 Interest Rates

11.4.1 Reduced Government borrowing has resulted in a steady decline in treasury bill yields and is expected to bring down interest rates which have been persistently high this year. The bank rate has been above 60% for most of 2001 and even reached 75.3% in February. This contrasts sharply with the 47% rate that prevailed during 2000. The increased volatility in the bank rate is related to RBM's new formula for determining this variable by tying it to the 271-day treasury bill yield. The suitability of this approach has been questioned.

11.5 Fiscal Policy

11.5.1 Fiscal policy represents Government's attempts to influence the economy by changes in expenditure or taxes in order to achieve particular goals. A good indicator of fiscal policy is the government deficit that shows the shortfall between Government revenues and expenditures. During the first few months of the 2000/01 fiscal year, the deficit widened significantly when compared to the previous quarter. That is, expenditures increased faster than revenues.

11.5.2 Increases occurred mainly in recurrent expenditures (other expenditures, wages and salaries, and domestic interest payments) and extrabudgetary items (*RBM, Financial Economic Review, No. 2, 2000*). Government revenues during this period were lower than projected due to the Kwacha depreciation that affected import volumes and therefore taxes collected from this source. Furthermore, there were delays in donor funding during 2000, meaning that both local and foreign sources of revenue were down.

11.5.3 The budget deficit incurred during this period was mainly financed through borrowing on the domestic market leading to higher interest rates as noted above. More recently, total expenditure has begun to decline in part due to reduced loan repayments on treasury bills, as well as to cost savings arising from the Ten Point Plan, 70% of which has been implemented according to Government. Nonetheless, the overall deficit (before grants) remains a worrying 14% of GDP, compared to an overall deficit of 9.3% of GDP in 1999. A widening deficit points to the need for tighter expenditure control, especially as government revenues are expected to decline once the new regional trade protocols are fully implemented.

12. The Private Sector

12.0.1 Growth in the private sector is the key to diversifying the economy and increasing employment in agro-processing and other manufacturing, tourism, and other industries. While much is said about encouraging private business, little seems to be happening on the ground. The Private Sector Development Project funded by the World Bank, for example, has been stalled for several years. The Committee heard testimony from the private sector highlighting constraints to business development. Among other things, private businesses are concerned about the level of taxes imposed on them, a function of the limited economic base from which the Government can raise revenues.

12.1 The Surtax

12.1.1 Government has gazetted legislation (Bill No. 2, 2001) to extend the surtax to wholesale and retail trade. This is a commendable effort by government to broaden the tax base, particularly important since international trade agreements to which Malawi is a party will reduce revenue from duty on imports, the largest single source of domestic revenue. Properly conceived, extension of the surtax should lead to significant increases in government revenue as well as benefits for local manufacturers.

12.1.2 Representatives from the private sector who testified before the Committee raised significant questions about Bill No. 2. Some concerns relate to provisions that are unclear and/or place excessive discretionary powers in the hands of implementing authorities. The concerns of the private sector seem to the Committee to be too serious to be adequately addressed by amendments to the Bill during plenary debate in Parliament or by subsidiary legislation after enactment.

12.1.3 The surtax is essentially a value-added tax, and such taxes tend to be regressive in nature, i.e., poorer individuals pay higher percentages of their

incomes than wealthier individuals. The proposed bill includes exemptions for basic foodstuffs and other necessities consumed by the poor. However, the Committee believes that more analysis is needed to be certain about how the tax will affect the poor.

12.1.4 Government is keenly aware of the need for civic education about the surtax to avoid widespread public opposition and tax evasion that would defeat the purpose for instituting the tax.

12.1.5 The Committee explained these concerns to the Minister of Finance and Economic Planning. The Minister emphasised the need for the legislation, but was sympathetic to the idea of referring it to a parliamentary Committee so public hearings can be conducted, issues thoroughly vetted, and amendments drafted as appropriate. This will also afford the opportunity to initiate civic education on extension of the surtax, to which Government is committed.

<p><u>Recommendation 22</u>: Refer Bill No.2, 2001, the Surtax Bill for extension of the surtax to retail and wholesale trade, to a Committee for public hearings.</p>
--

13. Conclusion

13.0.1 The Committee urges Parliament to support and Government to designate the twelve programmes recommended by the Committee as Priority Poverty Expenditures for 2001/2002. We hope budget documents will provide the information needed to evaluate the amounts of spending proposed for these programmes.

13.0.2 The Committee supports Government's commitment to enforcing fiscal discipline. We hope budget documents will include a commitment to provide the information cited in this report as essential for tracking and monitoring Priority Poverty Expenditures. We also hope Government will guarantee allocation and expenditure of the full amounts budgeted for Priority Poverty Expenditures from all sources.

13.0.3 The Committee appreciates Government's interest in strengthening the role of Parliament and the public in the budgeting process. We hope Government and Parliament will insist on adequate time for civic input on the proposed budget, as well as enough time for a thorough debate in the House.

14. Recommendations

1. Refer the budget to the Budget and Finance Committee for public hearings, subject to Section 178 of the Constitution. Allow at least 21 days for debate to consider all significant inputs. (page 11)
2. Include funds in the budget to enable oversight Committees to do their work professionally, and for training for Members of oversight Committees whose portfolios are critical for poverty reduction. (page 12)
3. Consult with the Budget and Finance and Public Accounts Committees before new finance and audit legislation is drafted. Ideally meetings of these Committees with Cabinet Committees on the economy and budget would also help. (page 12)
4. Designate in the budget a limited number of specific programmes that are likely to be most important for reducing poverty. Cost the inputs for these programmes realistically, and code all funds budgeted for these programmes from all sources as Priority Poverty Expenditures. (page 13)
5. Present the budget, at least for Priority Poverty Expenditures, in a format with the features outlined in Section 2.5.2. (page 14)
6. Provide quarterly reports with features outlined in Section 2.6.8, at least for Priority Poverty Expenditures. (page 16)
7. Guarantee that total funds actually spent on programmes designated as Priority Poverty Expenditures will not be less than the amount budgeted for them from all sources, and seek prior approval from Parliament for any change in funding for Priority Poverty Expenditures. (page 17)
8. Include in the budget a complete accounting of all uses of HIPC funds for 2000/2001, and commit to use HIPC funds exclusively for designated Priority Poverty Expenditures. Commit to provide quarterly reports on uses of HIPC funds as outlined in Section 3.2.3. (page 19)
9. Increase membership of PRSP working groups and participation in district consultations to ensure participation by poor Malawians, women, people with front-line service delivery experience, and MPs. Increase administrative and technical support to ensure adequate notice of meetings and assistance as needed. Include representatives from the Budget and Finance Committee and civil society on the Technical Committee for the PRSP. Take the trouble to have MPs actively participate. (page 22)

10. Substantially increase the budget for Government extension services, and designate the budget as a Priority Poverty Expenditure. (page 27)
11. Substantially increase the budget for support for programmes that provide credit and related services to poor farmers, and designate the same as a Priority Poverty Expenditure. (page 27)
12. Substantially increase the budget for the Targeted Inputs Programme (TIP), include funds adequate to ensure proper distribution and associated delivery of extension services, and designate the same as a Priority Poverty Expenditure. (page 28)
13. Substantially increase the budget for training primary school teachers, and designate the same as a Priority Poverty Expenditure. (page 30)
14. Substantially increase the budget for personal emoluments (salaries and benefits) for teachers, and designate the same as a Priority Poverty Expenditure. (page 30)
15. Substantially increase the budget for teaching and learning materials for primary schools, and designate the same as a Priority Poverty Expenditure. (page 31)
16. Substantially increase the budget for training front-line health care professionals, and designate the same as a Priority Poverty Expenditure. (page 32)
17. Substantially increase the budget for personal emoluments (salaries and benefits) for front-line health care professionals including nurses, and designate the same as a Priority Poverty Expenditure. (page 33)
18. Substantially increase the budget for drugs and medical supplies, include adequate funds for proper distribution and increased security for drug stores, and designate the same as a Priority Poverty Expenditure. (page 34)
19. Substantially increase the budget for rehabilitating and constructing rural roads and bridges, and designate the same as a Priority Poverty Expenditure. (page 34)
20. Substantially increase the budget for constructing safe drinking water systems, include funds for community training in maintenance, and designate the same as a Priority Poverty Expenditure. (page 35)

21. Substantially increase the budgets for training and employment for the Police Service (to increase the number of trained officers), and for instituting community policing, particularly in rural areas. Include in the budgets adequate funds for equipment and other materials, and designate the same as Priority Poverty Expenditures. (page 36)
22. Refer Bill No. 2, 2001, the Surtax Bill for extension of the surtax to retail and wholesale trade, to a Committee for public hearings. (page 40)

Consultants to the Committee

1. Mangani, Ronald, Department of Economics, Chancellor College, University of Malawi, Zomba
2. Chaponda, Taziona, consulting economist, Blantyre

Technical Advisers

3. National Democratic Institute, Lilongwe

**Members of Other Committees Who Participated
in Budget and Finance Committee Meetings**

- | | |
|--------------------------------|--|
| 1. Hon. Bernard R. Chisale, MP | Legal Affairs |
| 2. Hon. Wallace F. Chiume, MP | Chairman, Commerce, Industry,
and Tourism |
| 3. Hon. Loveness Gondwe, MP | Chairman, Health and Population |
| 4. Hon. Kate Kainja, MP | Chairman, Education, Science, and
Technology |
| 5. Hon. Charles E. Kamvere, MP | Legal Affairs |
| 6. Hon. Masten J. Kanje, MP | Vice Chairman, Education, Science,
and Technology |
| 7. Hon. James K. Luwe, MP | Vice Chairman, Agriculture and
Irrigation |
| 8. Hon. V.G. Dzoole Mwale, MP | Agriculture and Irrigation |
| 9. Hon. Sitsi Nkhoma, MP | Former Chairman, Public Accounts |
| 10. Hon. Henry L. Zembere, MP | Vice Chairman, Health and Population |
| 11. Hon. Bamani A. Zgambo, MP | Legal Affairs |

**Government Spokespersons
Consulted by the Committee**

1. Chikaonda, Matthews, Hon., Dr., Minister of Finance and Economic Planning. *Pre-Budget Comments to Budget and Finance and Public Accounts Committee*. Lilongwe: May 2001.
2. Chipeta, Mapopa, Dr., Director General, National Economic Council. *Comments to Budget and Finance Committee on poverty and the economy*. Lilongwe: 9 March 2001.
3. Chiunda, C., Chief Economist, National Economic Council. *Comments to Budget and Finance Committee on Integrated Household Survey*. Lilongwe: 8 and 9 March 2001.
4. Chuthi, S.T.M., Treasury Economist, Ministry of Finance and Economic Planning. *Comments to the Budget and Finance Committee on Bill No. 2, Surtax Bill*. Lilongwe: 8 May 2001.
5. Kumbatira, Mckenzie, Under Secretary for Finance, Ministry of Health and Population. *Comments to Budget and Finance Committee on Expenditure in the Ministry of Health and Population*. Lilongwe: 19 April 2001.
6. Kutengule, Dr., Deputy Chief Economist, National Economic Council, *Comments on Integrated Household Survey*. Lilongwe: 8 March 2001.
7. Mwale, J. Kuthemba, Dr., Director of Educational Planning, Ministry of Education, Science, and Technology. *Comments to Budget and Finance Committee on Expenditure in the Ministry of Education, Science, and Technology*. Lilongwe: 18 April 2001.
8. Ngombe, Henry, Dr., Principal Secretary, National Economic Council. *Comments to Budget and Finance Committee on the Integrated Household Survey*. Lilongwe: 8 and 9 March 2001.
9. Nkwazi, Cosby U., Assistant Budget Director, Ministry of Finance and Economic Planning. *Comments to Budget and Finance Committee on expenditure and the Budget*. Lilongwe: 8 March and 19 April 2001.

Annex C, continued

10. Nyirenda, A.S.O., Principal Economist, Ministry of Agriculture and Irrigation. *Comments to Budget and Finance Committee on Agricultural Expenditure*. Lilongwe: 8 March 2001.
11. Soka, H.D., Director of Finance, Ministry of Health and Population. *Comments to Budget and Finance Committee on Expenditure in the Ministry of Health and Population*. Lilongwe: 19 April 2001.
12. Zimalirana, George, Assistant Chief Economist, National Economic Council. *Comments to the Budget and Finance Committee on the PRSP*. Lilongwe: 20 April 2001.
13. Zimpita, Patrick, Treasury Economist, Ministry of Finance and Economic Planning. *Comments to Budget and Finance Committee on revenue collection and Bill No. 2, Surtax Bill*. Lilongwe: 19 and 20 April 2001.
14. Zimpita, Patricia, Deputy Chief Economist, National Economic Council, *Comments to Budget and Finance Committee on the PRSP*. Lilongwe: 20 April 2001.

Civic Organisations Consulted by the Committee

Spokespersons for the Malawi Confederation of Chambers of Commerce and Industry and the Economics Association of Malawi represented only those organisations.

All other spokespersons represented many organisations with similar interests in reducing poverty. Each group met and selected one or more spokespersons to communicate their recommendations to the Committee. Previous interactions of some of these groups with other Committees of Parliament are noted below.

Among them, the spokespersons listed on page 47 below represented a total of 48 organisations with expertise in agriculture, education, health, private sector interests, consumer interests, and donor debt relief.

Agriculture: Spokespersons for the Agriculture Advocacy Network represented seven organisations including ActionAid, the National Association of Smallholder Farmers, Smallholder Coffee Trust, Land O' Lakes, Christian Services Committee, Oxfam, and CARE International. Last year this Network, with additional representation from several other organisations, testified before Parliament's Agriculture and Irrigation and Environment Committees.

Education: Spokespersons for the Civil Society Coalition for Quality Basic Education represented 16 organisations including the Teachers Union of Malawi (TUM), Association of Pre-School Playgroups in Malawi (APPM), Malawi Schools Parents Association (MASPA), CARE International, Oxfam, Voluntary Service Overseas (VSO), Paper Making Education Trust (PAMET), Development Aid from People to People (DAPP), Chisomo Children's Club, Forum of African Women Educationalists, Episcopal Conference of Malawi, The Story Workshop, World University Service of Canada (WUSC), GTZ Basic Education, Centre for Creative Community Mobilisation (CRECCOM), and Centre for Educational Research and Training (CERT). In December the Coalition testified before the Education, Science, and Technology Committee.

Health: Spokespersons for the Malawi Health Advocacy Network (MAHN) represented three organisations including the Medical Association of Malawi, the Consumer Association of Malawi (CAMA), and the National Association of Nurses of Malawi. Last year this Network, with additional representation from several other organisations, testified before the Health and Population Committee.

Annex D, continued

Economic Justice: Spokespersons for the Malawi Economic Justice Network (MEJN) represented more than 20 religious, civic, human rights, consumer, education, and academic groups that coalesced around the issue of debt relief and the Poverty Reduction Strategy Paper (PRSP). MEJN is an advocate before Parliament, Government, and donors regarding poverty reduction issues.

Annex D, continued

Spokespersons for Civic Organisations Consulted by the Committee

1. Chinangwa, Sirys, Economics Association of Malawi (ECAMA). *Comments on Bill No. 2, Surtax Bill*. Lilongwe: 8 May 2001.
2. Chinula, Georgina, National Association of Nurses of Malawi, Malawi Health Advocacy Network. *Presentation to the Malawi National Assembly, Budget and Finance Committee with regard to the 2001/2002 National Budget*. Lilongwe: 7 May 2001.
3. Chinyamunyamu, Betty. National Smallholder Farmers' Association of Malawi, Agricultural Advocacy Network. *Poverty Reduction Priorities in the Agricultural Sector*. Lilongwe: 7 May 2001.
4. Hajat, Rafiq, Malawi Confederation of Chambers of Commerce and Industry (MCCCI). *Comments on Bill No. 2, Surtax Bill*. Lilongwe: 8 May 2001.
5. Kanyimbo, Patrick, Consumer Association of Malawi (CAMA), Malawi Health Advocacy Network. *Comments on Bill No. 2, Surtax Bill*. Lilongwe: 8 May 2001.
6. Kangwere, Johanne, Oxfam, Agricultural Advocacy Network. *Poverty Reduction Priorities in the Agricultural Sector*. Lilongwe: 7 May 2001.
7. Magalasi, Collins, Malawi Economic Justice Network. *Comments to the Budget and Finance Committee on PRSP and Debt Relief*. Lilongwe: 7 May 2001.
8. Muula, Adamson, Dr., Medical Association of Malawi, Malawi Health Advocacy Network. *Presentation to the Malawi National Assembly, Budget and Finance Committee with regard to the 2001/2002 National Budget*. Lilongwe: 7 May 2001.
9. Ng'ombe, McBilly, Teachers Union of Malawi, Civil Society Coalition for Basic Education. *Presentation to the Malawi National Assembly, Budget and Finance Committee with regard to the 2001/2002 National Budget*. Lilongwe: 7 May 2001.
10. Ngwira, Austin, Land O' Lakes, Inc., Agricultural Advocacy Network. *Poverty Reduction Priorities in the Agricultural Sector*. Lilongwe: 7 May 2001.

**Excerpts from the World Bank's HIPC
Decision Point Document¹**

Table 4: Indicative Use of HIPC Resources: 2000/01 – 2001/03
(in millions of U.S. dollars)

	2000/01	2001/02	2002/03	Total
Health	3.6	11.1	15.4	30.1
Drugs	3.6	7.3	8.9	19.8
Primary Health Care	...	2.7	3.7	6.4
Nurses Training	...	1.1	2.7	3.8
Education	2.4	9.9	12.8	25.2
Teaching Materials	2.4	6.1	7.7	16.2
Teacher Training	...	3.8	5.1	8.9
Water				
Borehole Construction and Maintenance	...	4.2	6.2	10.4
Agriculture				
Extension	...	2.7	2.6	5.2
Gender, Youth and Community Services	...	1.9	2.6	4.5
Rural Roads	...	2.7	4.6	7.3
Savings for Priorities not yet Identified	8.7			8.7
Total	14.7	32.5	44.2	91.4

¹ The Memorandum and Recommendation of the President of the International Development Association to the Executive Directors on Assistance to the Republic of Malawi under the Enhanced HIPC Debt Initiative, December 5, 2000

Box 2: Policy Areas to be Monitored for the Floating Completion Point

Poverty reduction

- The full PRSP has been prepared and satisfactorily implemented for one year, as evidenced by the joint staff assessment of the country's progress report

Macroeconomic and structural reforms:

- Maintenance of macroeconomic stability and satisfactory implementation of the PRGF-supported program.
- Quarterly expenditure reporting as per format jointly developed by MOF/IDA
- Implement IFMIS in four pilot ministries
- Micro finance: (i) Approval by Cabinet of the "Micro-finance Policy", (ii) establishment of a monitoring system covering all micro-finance institutions and (iii) increase by 20% in the number of micro-finance clients.
- Submission of draft Land Law to parliament.

Governance:

- Separation of fiscal management and audit functions under new legislation.

Social sectors:

- Safety nets: Progress in the implementation of the National Safety Net Strategy, in particular (i) a Targeted Input Program for 2001/02 (ii) a rationalization and prioritization of existing and new programs and (iii) establishment of a monitoring and evaluation of the National Safety Net Strategy.
- Health: Progress towards a reduction of the human resource, drugs and medical equipment constraints through (i) a share of health expenditure of at least 13% of discretionary recurrent budget; (ii) recruitment, training and deployment of at least two hundred nurse technicians, fifty new medical assistants and twenty radiography technicians per annum, (iii) completion of "phase one" reforms of the Central Medical Stores (CMS) and a budget for drugs and medical supplies in line with BHA standard.
- HIV/AIDS: Progress in implementation of the National Aids Strategy, in particular (i) fully staffed, functional and autonomous National AIDS Control Secretariat; (ii) 75% of all condom outlet points with condoms in stock at any given time; (iii) continuous availability of testing kits at all blood transfusion sites by increasing blood testing kits from 1500 to 2500; (iv) implementation of an effective Behavior Change Communication Strategy; and (v) Syndromic Management of sexually transmitted infections (STI) in all Central, District and major CHAM hospitals.
- Education: Progress towards raising the quality of education through (i) share of education sector⁴⁰ expenditure in discretionary recurrent budget of at least 23%; (ii) yearly enrolment of 6000 students for teacher training and institution of in-service training for primary teachers (at least once each year); (iii) reallocate budgetary resources from secondary school boarding (except for special needs education) to teaching and learning materials; and (iv) pre-packaging of donor-supplied primary textbooks for each school and direct supply directly from the supplier to the schools.

⁴⁰ Min of Education, Universities, MANEB, MIE, scholarship fund and Polytechnic Bd of

Bibliography

1. Government of Malawi and World Bank. *Malawi Public Expenditure Review*. Lilongwe: October 2000.
2. International Monetary Fund and International Development Association. *Tracking of Poverty-Reducing Public Spending in Heavily Indebted Poor Countries (HIPC)s*. Washington, DC: International Monetary Fund, 27 March 2001.
3. *Finance and Audit Act*. Cap. 37:01, Sections 1-54. Laws of Malawi.
4. Malunga, L.B., Chairman. *Presidential Commission of Inquiry into the Malawi School Certificate of Education (MSCE) Examination Results*. Lilongwe: November 2000.
5. Mangani, Ronald, *Reports submitted to the Budget and Finance Committee, Part A: Economic and Financial Situation Analysis, Part B: Observations on the Malawi Government Budget for the 2000-2001 Fiscal Year* Zomba: July 2000.
6. Ministry of Agriculture. *Responses and Comments to Questions and Issues Raised by the Budget and Finance Committee of Parliament*. Lilongwe: April 2001.
7. Ministry of Finance and Economic Planning. *Draft Estimates of Expenditure on Recurrent and Development Accounts for the financial year 2000/2001, volumes 1-5*. Zomba: Government Printer, June 2000.
8. Ministry of Finance and Economic Planning. *Expenditure on Priority (Poverty) Programs (through 2nd Quarter of 2000/2001)*. Lilongwe: March 2001.
9. Ministry of Finance and Economic Planning. *MTEF Phase Two-Overview of Plan of Action: Government of Malawi*. Lilongwe: August 2000.
10. Ministry of Finance and Economic Planning. *Revenue Table (through 3rd quarter of 2000/01)*. Lilongwe: April 2001.

Annex F, continued

11. Ministry of Finance and Economic Planning. *Talking Points to Budget and Finance Committee*. April 2001.
12. Ministry of Finance and Economic Planning. *Treasury Circular Instruction No. 06 of 2000/2001: Instructions for the Preparation of the 2000/01-2003/04 Medium Term Expenditure Framework and the Draft Estimates of Expenditure on Recurrent and Capital Accounts and Estimates of Revenue for 2001/2002*. Lilongwe: March 2001.
13. National Economic Council. *Profile of Poverty in Malawi, 1998: Poverty Analysis of the Malawi Integrated Household Survey, 1997-98*. Lilongwe: National Economic Council, November 2000.
14. National Economic Council. Poverty Monitoring System Briefs: No. 1-7 (*The institutional context – The Poverty Alleviation Programme; The number of poor in Malawi; The schooling of children in poor households; The fertility of poor women; Expenditure patterns of poor households; and The access of the poor to agricultural land.*) Lilongwe: National Economic Council, November 2000.
15. National Economic Council. *Replies to Questions on the Profile of Poverty in Malawi*. Lilongwe: April 2001.
16. PRSP Technical Committee. *Draft, Malawi PRSP: Findings to Date*. Lilongwe: 2001.
17. PRSP Technical Committee. *Malawi Poverty Reduction Strategy Paper (PRSP) Preparation Process: District Consultations Report*. Lilongwe: 14 March 2001.
18. PRSP Working Groups. *PRSP Draft Papers on Agriculture, Credit, Decentralization, Determinants of Poverty in Malawi, 1998, Education, Energy, Gender, Governance, Health, HIV/AIDS, Industry, Macroeconomic Stability, Public Expenditure Management, Taxation, and Technology*. Lilongwe: April 2001.
19. Republic of Malawi. *Interim Poverty Reduction and Growth Strategy Paper-A Road Map*. Lilongwe: August 2000.

Annex F, continued

20. Reserve Bank of Malawi. *Financial and Economic Review, No. 3*. Lilongwe: Reserve Bank of Malawi, 2000.

21. Southern Region Chambers of Commerce and Industry. *Comments at Pre-Budget Consultative Meeting 26, May 2001*. Blantyre: 26 May 2001.

22. Technical Committee on the PRSP Preparation. *An Issues Paper on the Poverty Reduction Strategy for Malawi*. Lilongwe: 14 October 2000.

23. World Bank. *Memorandum and Recommendation of the President of the International Development Association to the Executive Directors on Assistance to the Republic of Malawi Under the Enhanced HIPC Debt Initiative*. Washington, DC: World Bank, 5 December 2000.

24. Wynne-Edwards, Jeanine. *Parliamentarians and Policies to Reduce Poverty*. Listserv: parliamentarians@lists.worldbank.org, 11 May, 2001.